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Indonesia

Product Brief

Popcorn

2002

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Report Highlights:

Indonesian does not produce popcorn, all popcorn consumed in Indonesia is imported. Popcorn consumption is rising within these past few years along with Indonesian economy recovery. In 2003, total import of popcorn (bulk) is estimated to grow 10 percent, reaching 1,980 mt, valued at US\$ 935,000. In the same period, microwave oven popcorn market is forecast to grow about 25 percent, reaching 80 mt, valued about US\$ 240,000. Furthermore, with its undeveloped potential, Indonesian importers are expecting imports of microwave popcorn will be double over the next few years with intensive marketing/promotion.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Jakarta ATO [ID2], ID

Executive Summary

Snacking is part of the Indonesian lifestyle, with a long tradition and an abundant variety of local snacks. The most popular snack in general is "krupuk" or crackers made from fish, shrimp, or squid. However, with over 210 million population, Indonesia still has a tremendous potential for imported snacks. In terms of value, only 5 percent out of total snacks consumed in Indonesia is imported (US\$ 75,277,461). Popcorn, only makes up one percent of total imported snacks. Nevertheless, industry predicts that popcorn products capacity to expand its market share is very promising with intensive marketing/promotional activities to educate the market which still has a low awareness for popcorn products. In 2003, total import of popcorn (bulk) is estimated to grow 10 percent, reaching 1,980 MT, valued at US\$ 935,000. In the same period, microwave popcorn market is forecast to grow about 25 percent, reaching 80 MT, valued about US\$ 240,000.

In Indonesia, the popcorn market is divided into "made at home popcorn" and "consumed on-premise popcorn". Each category has its own market segment which has specific preferences. In general, consumed on premise popcorn which can be found at parks, carnivals, supermarket, multiplex movie theater has a greater market compare to made at home popcorn due to its longer history and wider distribution area. Made at home popcorn which are mainly microwave popcorn is only popular among expatriates and wealthy Indonesian. For both categories, U.S. popcorn dominated the market for its high quality. Importers, popper, and end customer are willing to pay the price difference for U.S. products for bigger and low amount of un-popped popcorn kernels. Yet, price is also a major determining factor, New Zealand, Australian, and even Argentinean popcorn can easily enter the market when their price is significantly lower than U.S. popcorn.

Section I. Market Overview

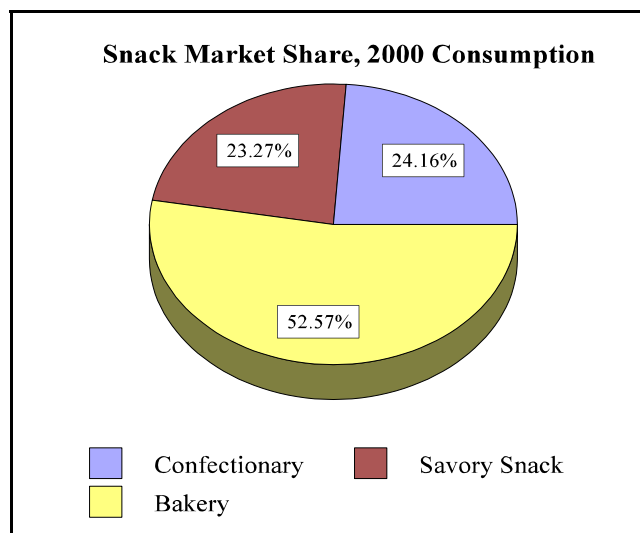
Snacking is part if the Indonesian lifestyle, with a long tradition and an abundant variety of local snacks. The snack industry is characterized by many small players operating as home industries and often covering just a very small local territory. As a result, traditional snacks enjoy a very good retail presence all over the archipelago. Snack is divided into three categories, which are: confectionary (sugar candies, chocolates, gums, etc), savory snack (crackers/chips, popcorn, nuts, etc), and bakery (bread, pastry, biscuits, etc). In 2000, the most recent year for which complete data is available, total consumption reached US\$ 1.5 billion.

| Category | million Rp. | US\$ |
|---|-------------|---------------|
| Confectionary | 3,274,202 | 363,800,222 |
| Savory Snack | 3,152,741 | 350,304,556 |
| Bakery | 7,123,000 | 791,444,444 |
| Total | 13,549,943 | 1,505,549,222 |
| (1 US\$ = Rp. 9,000) | | |
| source: store checks, trade/industry interviews | | |

Supply for snack products are largely covered by local production, imported snack products has only approximately five percent market share in terms of value (US\$ 75,277,461), which dominated by potato chips and sugar/chocolate confectionaries. One percent (US\$ 752,775) out of that imported snack items, is popcorn.

Popcorn is not a traditional Indonesian snack, popcorn available in Indonesian market today can be classified into:

"made at home" and "consume on-premises." The first category refers to microwave popcorn which are mainly sold at supermarkets and department stores. The second category of popcorn in Indonesia is popcorn consumed on premises, mainly available at supermarkets, food fairs/carnivals, and movie theaters.



Made at home popcorn

This is relatively new product to Indonesian customers, characterized by a limited distribution through selected upper-end supermarkets in big cities. Orville, Betty Crockers, and Act II are the U.S. brands in the Indonesian market. However, only Act II Microwave popcorn can be found in retail stores continuously. This brand hold 80 percent market share for microwave popcorn while the other brands are seasonally brought in by independent importers usually only during holiday season.

Raw corn kernels can also be found in supermarkets among other grain products. This type of corn can be made into popcorn at home. However, it is very uncommon for Indonesian people to consume stove-top popcorn at home, usually they would buy raw corn kernels as ingredients for other dishes.

Relatively low market performance for made at home popcorn is due to consumers low product awareness as the product is low profile and caters only to a small number of expatriates and wealthy Indonesians, exposed to such products elsewhere. Another factor that inhibits microwave popcorn growth is the fact that only a small percent of Indonesian households own a microwave oven in their house. These past year, there was significant take-up by new customers after an intensive marketing/promotion activities to educate the market which reflected in the 30 percent increase of import from US\$ 120,000 in 2001 to US\$ 180,000 in 2002. With the tendency of more and more "Western food item" coming to Indonesia, importers are optimistic that Indonesia still has a tremendous potential that needs to be developed for made at home popcorn.

Consumed on-premises popcorn

This popcorn category has a longer history than made at home popcorn. Small to medium popcorn poppers sell their popcorn at food fairs/carnivals, small vendors, and supermarkets, therefore its distribution are not limited in big cities. These popcorn are usually brightly colored (pink, green, yellow and green), lightly flavored as: caramel, salty, hot, or chocolate and sold to low to medium class customer. In early 1990s multiplex movie theaters also began to provide popcorn. This practice was started and turned out as a big hit when movie theaters in major cities were monopolized by Studio 21. That was the first time popcorn was introduced as "American style snack" freshly made on premises and packaged well to suite medium to upper class consumer taste.

Raw popcorn kernels for the consumed on-premise popcorn are all imported. Overall, importers prefer U.S. popcorn over New Zealand, Australian, or Argentina because of its higher quality. Poppers and end customers are willing to pay the price difference when they got bigger and almost none un-popped popcorn. U.S. brands of popcorn imported regularly to Indonesia are: Blue Ribbon, Morrison's Farm, Mr. Pop. Northloup Valley, Crown, Wyne Dote, Vogel, and Corona are also enter Indonesia seasonally.

| Advantages and Challenges Facing U.S. Popcorn in Indonesia | |
|--|--|
| Advantages | Challenges |
| Market scale- population exceeds 200 million | Weak purchasing power of average consumer |
| Quality of US products is highly regarded | At the end if the price is right, quality will only be the second determining factor |
| Developing nation status presents a great potential for growth | Wide cultural differences present difficulties in negotiations. |
| Snacking is already a part of Indonesian tradition | Popcorn is not yet a popular item for snack in Indonesia |
| Popcorn products varieties are affordable for all market segments | Poor infrastructure and storage capacity limit product distribution |
| Still has tremendous potential market waiting to be developed | With limited resources only small part of market are exposed to popcorn products |
| Mild/blend popcorn taste can be modified according to customer preferences | Low consumer awareness of Popcorn (No or limited marketing/promotion activities to educate market) |
| Popcorn crunchy texture suited customer preference for snacks | Indonesian humid conditions limit storage time |

Section II. Market sector opportunities and threats

Trade sources indicate that the Indonesian retail market for popcorn is divided into two customer segments which characterized by consumer purchasing habit. Expatriates communities has the tendency to buy large amount of one or two mild flavored variety such: salted, light buttered or natural, at a time, while local customers like to buy small amount but many varieties of the strong flavored ones: hot, caramel, cheddar cheese, extreme butter, and butter lovers.

| Consumer preference for popcorn consumption | | |
|---|--|---------------------------------|
| Type of popcorn, flavor | Customer segmentation | frequency of consumption |
| Microwave popcorn, mild flavored (light butter, natural) | expatriates | one to two times per week |
| Microwave popcorn, strong flavored (butter lovers, extreme butter, caramel, cheddar cheese) | medium-upper class local community | once a week |
| Theater popcorn, mild and strong flavored (natural, salted, extra butter) | expatriates and medium-upper class local community | once a week |
| Retail pack popcorn at supermarket and parks, mild and strong flavored (natural, salted, buttered, sweet, hot, chocolate) | medium to low class local community | once a month |

Source: store checks, trade/industry interviews

Selling rate for popcorn are relatively stable during course of the year, the only time selling rate drops are usually during fasting season in Ramadhan and then increase during Lebaran, Christmas, and New Year holiday.

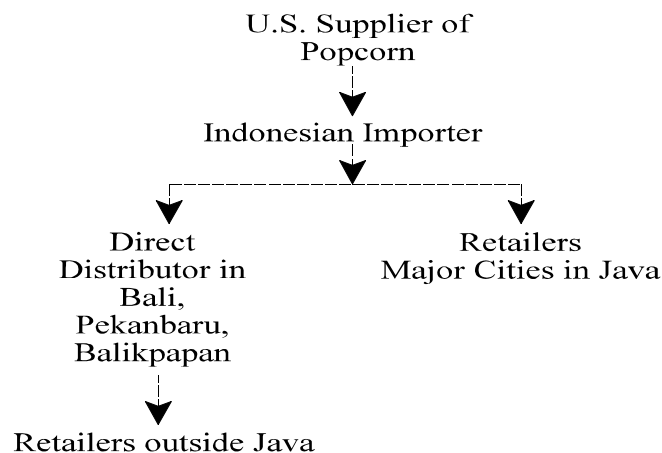
Customer preference for bigger kernels and low un-popped popcorn, give U.S. popcorn an opportunity in dominating the popcorn market due to its high quality. Importer which has long trade experience with the market will seldom take the risk of importing popcorn from other countries even though U.S. popcorn prices are higher. However, several independent importers still import from Australia, New Zealand, or Argentina when the price is significantly lower (above 25 percent) below U.S. product prices. Those popcorn kernels are usually sold to poppers for low to medium quality consume on-premise popcorn.

More promotional activities are greatly needed to expand popcorn market. So far no advertising has been done to induce the habit of eating popcorn for snack. Further promotional activities at retail level such as sampling and demonstrations are needed to increase consumer awareness. Currently ACT II microwave popcorn importer spends 30 percent of its profit for promotional activities, however, to expand the popcorn market in general, support from the supplier to boost promotional activities is greatly needed.

Another factor hindering the growth of the popcorn market in Indonesia is the under developed infrastructure and storage facilities in Indonesia which limits distribution to major cities. Furthermore, with its humid condition, shelf life of raw popcorn kernels which originally could last for a year are reduced only to 3-6 months. With turnover order time up to 8 weeks, importer capacity to reserve sufficient stock when demand in the market increase are very limited. Importers do not want to take risk when the actual storage time is only 1-2 months.

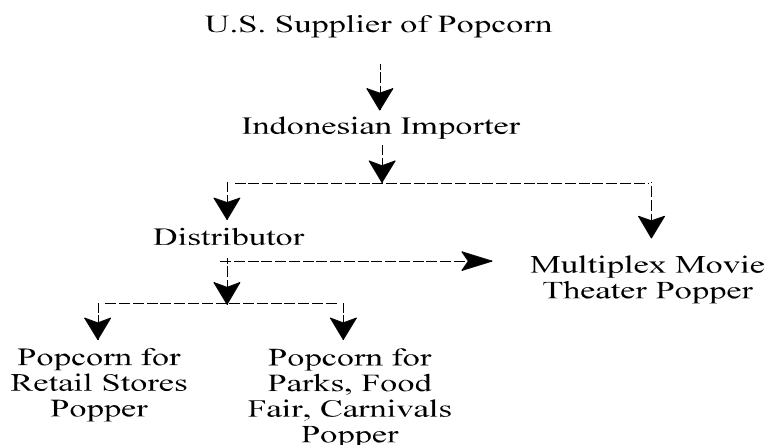
A. Distribution scheme

Made at home Popcorn



Consumed on-premises

popcorn



B. Entry Strategy

Generally applicable principles for entry to the Indonesian market are as follows:

- Personal contact and local representation is essential if a permanent presence in the market is envisaged.
- Selection of a local representative requires careful and detailed research to confirm claims. Commercial acumen is of greater value in the market than "good connections".
- Pay attention to accounting standards applied in the preparation of reports supporting the financial standing of candidate representative's or partners.
- Use the Agricultural Trade Office, to obtain reliable advisor services.
- Strict adherence to the Muslim pure food requirements (halal certificate) **MUST** be taken seriously. Over 85% of the Indonesian population practice Islam, and foods that do not meet the halal requirements will not sell well.

The following facts should be noted for successful market entry into Indonesia:

- A company may be established as 100% foreign owned in Indonesia, but inclusion of a competent local minority partner is useful to assist with adaptation to the business environment and culture.
- Infrastructure in the country is underdeveloped, the law is based on Dutch principles and fluency in English is limited to the upper echelons of society.
- Purchase of a majority share in an existing Indonesian company is currently a viable option because many companies with useful production capacity have been severely affected by the financial crisis and are now open to investment or purchase.

III. Market Access

Currency fluctuations greatly effecting the selling price for popcorn, within this past month, popcorn price has increase 10 percent and it will rise even more if the new policy for insurance to cover war risk goes into effect.

The Indonesian Harmonized System (HS) code does not specifically list "popcorn".

| Popcorn import classification | | | |
|--|--------------------|-------------|------------|
| HS code (description) | Popcorn type | Import Duty | VAT |
| 1904.90.000 (cereals, other than corn (maize), in grain form, pre-cooked or otherwise prepared, N.E.S.O.I) | Microwave popcorn | 5 percent | 10 percent |
| 1005.90.000 (Corn, other) | Raw kernel popcorn | 0 percent | 0 percent |

source: Official statistics

In general, government regulation requires importer to provide:

- S certificate of origin
- S health certificate (VHHYTO certificate)

- S Import licence number (ML number)
- S Halal certificate
- S Labeling which contain:
 - name of producer/distributor/importer with address
 - net weight (g, kg)
 - expiration date
 - storage information
 - usage instructions
 - country of origin
 - ingredients, including food additives

note: nutritional information is not required. Popcorn and corn kernel in grain form may be imported with U.S. labels, however, prior to retail distribution it must be labeled in Indonesian that includes information above.

Starting March 7, 2002, Ministry of Trade and Industry announced new regulation (05/DJPLN/KP/III/2002) which listed bulk commodities which only can be imported by importer with "Nomor Pengenal Importir Khusus (NPIK)" or Special Importer Identification Number. One of the bulk commodities listed is corn, which include the raw popcorn kernels.

IV. POST CONTACT AND FURTHER INFORMATION

The U.S. Agricultural Trade Office in Jakarta maintains up-to-date information covering food and agricultural import opportunities in Indonesia and would be pleased to assist in facilitating U.S. exports and entry to the Indonesia market. Questions or comments regarding this report should be directed to the U.S. ATO in Jakarta at the following address:

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Please contact our home page for more information on exporting U.S. food products to Indonesia, including "Hotel and Restaurant Industry: Bali", "Market Brief: Imports of U.S. Fresh Fruit: Indonesia", Market Brief: " Indonesian Meat Processing Industry", "Market Brief - Indonesian Bakery Industry", Market Brief - Indonesian Beverage Industry", "Market Brief - Beef Liver & Chicken Leg Quarter in Indonesia", and "Market Brief-Furniture Industry in Indonesia". As of January 2003, the following updated reports are available; "Food Processing Sector Report: Indonesia", "The Retail Sector Report: Indonesia", "The HRI Food Service Sector Report: Indonesia".

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's Home Page: <http://www.fas.usda.gov>